

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|--------------------------|---|-----------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Unit Name IOSCO REGIONAL EDUCATION SERVICE AGENCY | County IOSCO |
| Fiscal Year End 06/30/07 | Opinion Date 10/24/07 | Date Audit Report Submitted to State 11/15/07 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

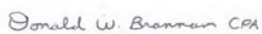
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

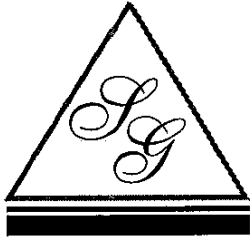
YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | |
|---|--|--|-------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | | |
| Other (Describe) | <input checked="" type="checkbox"/> | SINGLE AUDIT | |
| Certified Public Accountant (Firm Name) STEPHENSON, GRACIK & CO., P.C. | | Telephone Number (989) 362-4491 | |
| Street Address 325 NEWMAN STREET, PO BOX 592 | | City EAST TAWAS | State MI |
| Zip 48730 | | | |
| Authorizing CPA Signature  Signature Valid | Printed Name DONALD W. BRANNAN, CPA | License Number 1101021039 | |



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IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED JUNE 30, 2007

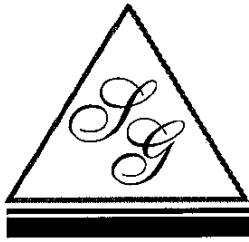
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AUDITORS' REPORT

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October 24, 2007

Independent Auditors' Report

Board of Education
Iosco Regional Educational Service Agency
Iosco County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Iosco Regional Educational Service Agency, Iosco County, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the Agency's basic financial statements, as listed in the index. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Iosco Regional Educational Service Agency as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2007, on our consideration of Iosco Regional Educational Service Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Iosco Regional Educational Service Agency's basic financial statements. The individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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As management of the Iosco Regional Educational Service Agency, (the Agency), we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2007.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms the past and current position of the school agency's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the Agency's revenues and expenditures by program for the General Fund, Special Education Fund, Vocational Education Fund, and Capital Project Fund.

FINANCIAL HIGHLIGHTS

Our financial statements provide these insights into the results of this year's operations.

The overall condition of all funds and governmental activities is positive for the Agency.

The assets of the Agency exceeded its liabilities at the close of the most recent fiscal year by \$2,422,359 (net assets). Of this amount, \$682,462 (unrestricted net assets) may be used to meet the Agency's ongoing obligations to taxpayers, students and creditors.

The Agency's total net assets increased by \$66,037. This represents the degree to which ongoing revenues have surpassed ongoing expenses.

As of the close of the current fiscal year, the Agency's governmental funds reported combined ending fund balances of \$1,395,108, an increase of \$127,273 in comparison with the prior year. Of this amount, \$1,364,270 is available for spending at the Agency's discretion (unreserved fund balance). This represents 25% of the total expenditures of these funds.

USING THIS ANNUAL REPORT

This discussion and analysis are intended to serve as an introduction to the Iosco Regional Educational Service Agency's basic financial statements. The Agency's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the Agency's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The *statement of activities* presents information showing how the Agency's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2007

Both of the government-wide financial statements distinguish functions of the Iosco Regional Educational Service Agency that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Agency include instruction, support services, community services, and transfers to other districts. The Agency does not currently have any business-type activities.

The government-wide financial statements can be found in the Statement of Net Assets and Statement of Activities.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of these funds of the Agency can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. The Agency does not currently have any proprietary funds or fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balances of *spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the Agency's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Agency's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Agency maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures and changes in fund balances for the General Fund, Special Education Fund and Vocational Education Fund which are considered to be major funds.

The Agency adopts annual appropriated budgets for its governmental funds. A budgetary comparison statement has been provided for the General Fund, Special Education Fund and Vocational Education Fund to demonstrate compliance with budgets.

The basic governmental fund financial statements can be found in the Balance Sheet – Governmental Funds and the Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2007

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning budgetary information for the Agency's major funds. Required supplementary information can be found in the Statement of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual – for the General Fund, Vocational Education Fund, and the Special Education Fund.

Our auditors have provided assurance in their independent auditors' report, located immediately preceding this Management's Discussion and Analysis, that the Basic Financial Statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the Required Supplementary Information and the Supplementary Information identified above. A user of this report should read the independent auditors' report carefully to ascertain the level of assurance being provided for each of the parts in the Financial Section.

GOVERNMENT -WIDE FINANCIAL ANALYSIS

The Agency's net assets were \$2,422,359 at June 30, 2007. Of this amount, \$682,462 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Agency's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and the change in net assets (Table 2) of the Agency's governmental activities.

TABLE 1
NET ASSETS

Governmental
Activities

| | <u>Year Ended June 30, 2007</u> | <u>Year Ended June 30, 2006</u> |
|---|-------------------------------------|-------------------------------------|
| Current Assets | \$ 1,732,697 | \$ 1,521,204 |
| Capital Assets, Net | <u>3,369,416</u> | <u>3,581,282</u> |
| Total Assets | <u>5,102,113</u> | <u>5,102,486</u> |
| Current Liabilities | 406,058 | 325,802 |
| Noncurrent Liabilities | <u>2,273,696</u> | <u>2,420,362</u> |
| Total Liabilities | <u>2,679,754</u> | <u>2,746,164</u> |
| <u>Net Assets</u> | | |
| Invested in Capital Assets, Net of Related Debt | 1,119,666 | 1,184,808 |
| Restricted | 620,231 | 658,188 |
| Unrestricted | <u>682,462</u> | <u>513,326</u> |
| Total Net Assets | <u>\$ 2,422,359</u> | <u>\$ 2,356,322</u> |

The \$682,462 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means that if we had to pay off all of our bills *today*, including all of our noncapital liabilities (compensated absences for example), we would have \$682,462 left.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2007

The Agency's net assets were \$2,422,359 at June 30, 2007. Capital assets, net of related debt totaled \$1,119,666. The debt of the Agency will be paid for by property taxes collected as the debt service comes due. Day to day operations will be paid for by property taxes, state aid and federal revenues that will be received throughout the year. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Agency's ability to use those net assets for day-to-day operations. The remaining amount of net assets, \$682,462 is unrestricted.

TABLE 2
CHANGES IN NET ASSETS

| | Governmental Activities | |
|---------------------------------------|------------------------------------|------------------------------------|
| | Year Ended <u>June 30, 2007</u> | Year Ended <u>June 30, 2006</u> |
| Revenue: | | |
| Program Revenue: | | |
| Charges for Services | \$ 931,480 | \$ 741,410 |
| Operating Grants and Contributions | 2,880,955 | 3,006,549 |
| Capital Grants and Contributions | 48,763 | 46,356 |
| General Purpose Revenue: | | |
| Current Property Taxes | 1,216,555 | 1,165,967 |
| State School Aid – Unrestricted | 355,838 | 370,249 |
| Investment Earnings | 52,891 | 43,195 |
| Unrestricted Contributions | 6,709 | 7,382 |
| Miscellaneous | 45,675 | 207,095 |
| Gain (Loss) on Sale of Capital Assets | 4,000 | (26,275) |
| Total Revenue | <u>5,542,866</u> | <u>5,561,928</u> |
| Functions/Program Expenses: | | |
| Instruction | 2,091,300 | 2,133,471 |
| Support Services | 2,430,352 | 2,307,577 |
| Community Services | 223,438 | 198,390 |
| Transfers to Other Districts | 296,729 | 291,842 |
| Interest on Long-Term Debt | 103,490 | 198,030 |
| Unallocated Depreciation | 331,520 | 323,981 |
| Total Functions/Program Expenses | <u>5,476,829</u> | <u>5,453,291</u> |
| Change in Net Assets | 66,037 | 108,637 |
| Net assets - beginning | <u>2,356,322</u> | <u>2,247,685</u> |
| Net assets - ending | <u>\$ 2,422,359</u> | <u>\$ 2,356,322</u> |

Governmental activities increased the Agency's net assets by \$66,037.

As reported in our Statement of Activities, the cost of all of our governmental activities this year was \$5,476,829. However, the amount that our taxpayers ultimately financed for these activities through Agency taxes was only \$1,216,555 because some of the cost was paid by those who benefited from the programs (\$771,216), by other governments and organizations who subsidized certain programs with grants and contributions (\$3,089,982) through unrestricted state aid (\$355,838), and by miscellaneous sources (\$109,275).

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2007

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The Agency's budgets are prepared according to Michigan law. The most significant budgeted funds are the General Fund, Vocational Education Fund and the Special Education Fund.

During the fiscal year ended June 30, 2007, the Agency amended the budgets of these major governmental funds a couple of times, none significantly.

General Fund

The General Fund actual revenue was \$1,238,816. That amount is above the original budget estimates of \$1,086,072 and the final amended budget of \$1,179,601. The variance between the actual revenues, the original budget, and the final budget was the result of overestimating cuts from government sources.

The actual expenditures of the General Fund were \$1,045,268, which is below the original budget estimates of \$1,086,072 and the final amended budget of \$1,154,448. The variance between the actual expenditures, the original budget, and final budget was due to a spending freeze in anticipation of revenue cuts and overestimating fuel and energy costs.

The General Fund had total revenues of \$1,238,816 and total expenditures of \$1,045,268 with an ending fund balance of \$774,877.

Vocational Education Fund

The Vocational Education Fund actual revenue was \$890,134. That amount is below the original budget estimates of \$932,886 and above the final amended budget of \$887,502. The variance between the actual revenues, the original budget, and the final budget was the result of overestimating cuts from government sources and tuition revenues from Local Districts.

The actual expenditures of the Vocational Education Fund were \$972,122, which is below the original budget estimates of \$1,012,021 and the final amended budget of \$1,006,274. The variance between the actual expenditures, the original budget, and final budget was due to a budget freeze in anticipation of revenue cuts and overestimating energy costs.

The Vocational Education Fund had total revenues of \$890,134 and total expenditures of \$972,122 with an ending fund balance of \$28,636.

Special Education Fund

The Special Education Fund actual revenue was \$3,408,410. That amount is below the original budget estimates of \$3,476,410 and above the final amended budget of \$3,383,762. The variance between the actual revenues, the original budget, and the final budget was the result of overestimating cuts from government sources.

The actual expenditures of the Special Education Fund were \$3,456,216, which is below the original budget estimates of \$3,476,410 and the final amended budget of \$3,578,115. The variance between the actual expenditures, the original budget, and final budget was due to a budget freeze in anticipation of revenue cuts and overestimating fuel and energy costs.

The Special Education Fund had total revenues of \$3,408,410 and total expenditures of \$3,456,216 with an ending fund balance of \$560,757.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2007

TOTAL REVENUES

The total revenues of the Agency were \$5,538,866. Of the total revenues, 100% were generated by governmental activities.

Program specific revenues in the form of charges for services, grants and contributions accounted for \$3,861,198 or 70% of total revenues of \$5,538,866.

GOVERNMENTAL FUND EXPENDITURES

Total governmental fund expenditures amounted to \$5,473,606. The governmental funds had a net gain in fund balance of \$127,273. The ending fund balance for all governmental funds was \$1,395,108 which represents 25% of current year expenditures. The ending fund balance percentage for the prior year represented 23% of last year's expenditures. This fund balance will be used to help reduce the amount of financing needed for the first six months of the school year as well as providing a contingency for unexpected expenditures and revenue cuts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2007, the Agency had \$5,074,296 invested in land and buildings, furniture and equipment, vehicles and buses. Of this amount, \$1,704,880 in depreciation has been taken over the years. We currently have a net book value of \$3,369,416. Total additions for the year were \$119,654. Current year additions included a new school bus totaling \$69,512, \$26,410 for a new exhaust system, \$5,320 for two Suzuki motorcycles, \$6,100 to remove and replace a curb island for motorcycle training, \$6,880 for a new rotary lift in the mechanics classroom, and \$5,432 for a professional storage card and accessories.

Long-Term Debt

At June 30, 2007, the Agency had \$2,178,510 in bonds and notes outstanding of which \$220,499 represent general obligation bonds of the Agency.

State statutes limit the amount of general obligation debt that a school district may issue. The current debt limitation for the Agency is significantly greater than the outstanding debt of the Agency.

Additional information on the Agency's long-term debt can be found in Note 7 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The economy in the State of Michigan is slowing significantly. The current State of Michigan revenue estimates have declined to the point that 2007-2008 funding is uncertain. These factors were considered in preparing the Agency's budgets for the 2007-2008 fiscal year.

Due to external economic factors the Iosco RESA's economic future, without balanced support from the local school districts, puts vocational education in jeopardy. Therefore, potential solutions for this issue are as follows:

- 1) Pass a vocational education millage.
- 2) Direction of more students to the vocational education programs at the Iosco RESA by the local districts.
- 3) Increase in vocational education tuition.
- 4) Billing of vocational education tuition on a school district per capita enrollment.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2007

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Iosco Regional Educational Service Agency's finances for all those with an interest in the Agency's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Ron Stec
Assistant Superintendent
Iosco Regional Educational Service Agency
27 N. Rempert Road
Tawas City, MI 48763
Office Telephone (989) 362-3006

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

STATEMENT OF NET ASSETS
June 30, 2007

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| <u>Assets</u> | |
| Cash and Cash Equivalents (Note 2) | \$ 1,328,798 |
| Receivables: | |
| Employee | 587 |
| State of Michigan (Note 3) | 219,896 |
| Local Units | 164,859 |
| Prepaid Expenses | 18,557 |
| Noncurrent Assets: | |
| Capital Assets, Net (Note 5) | <u>3,369,416</u> |
| Total Assets | <u>5,102,113</u> |
| <u>Liabilities</u> | |
| Accounts Payable | 31,013 |
| Due to Other Units | 133,895 |
| Interest Payable | 71,240 |
| Accrued Expenses | 23,934 |
| Salaries Payable | 126,704 |
| Deferred Revenue (Note 8) | 19,272 |
| Long-Term Liabilities (Note 7) | |
| Due within one year | 218,241 |
| Due in more than one year | <u>2,055,455</u> |
| Total Liabilities | <u>2,679,754</u> |
| <u>Net Assets</u> | |
| Invested in Capital Assets, Net of Related Debt | 1,119,666 |
| Restricted For: | |
| Vocational Education | 28,636 |
| Special Education | 560,757 |
| Capital Projects | 30,838 |
| Unrestricted | <u>682,462</u> |
| Total Net Assets | <u>\$ 2,422,359</u> |

The accompanying notes to financial statements are an integral part of this statement.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2007

| | | Program Revenues | | | Net (Expenses) Revenue and Change in Net Assets |
|---------------------------------------|---------------------|-------------------|---------------------|------------------|---|
| | | | Operating | Capital | Government |
| | Expenses | Charges for | Grants and | Grants and | Type |
| | | Services | Contributions | Contributions | Activities |
| Instruction | \$ 2,091,300 | \$ 448,355 | \$ 1,460,464 | \$ 0 | \$ (182,481) |
| Support Services | 2,430,352 | 353,594 | 1,006,179 | 37,343 | (1,033,236) |
| Community Services | 223,438 | 129,531 | 130,527 | 11,420 | 48,040 |
| Transfers to Other Districts | 296,729 | 0 | 283,785 | 0 | (12,944) |
| Interest on Long-Term Debt | 103,490 | 0 | 0 | 0 | (103,490) |
| Unallocated Depreciation | <u>331,520</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>(331,520)</u> |
| Total | <u>\$ 5,476,829</u> | <u>\$ 931,480</u> | <u>\$ 2,880,955</u> | <u>\$ 48,763</u> | <u>(1,615,631)</u> |
| General Purpose Revenue: | | | | | |
| Current Property Taxes | | | | | 1,216,555 |
| State School Aid - Unrestricted | | | | | 355,838 |
| Investment Earnings | | | | | 52,891 |
| Unrestricted Contributions | | | | | 6,709 |
| Miscellaneous | | | | | 45,675 |
| Gain (Loss) on Sale of Capital Assets | | | | | <u>4,000</u> |
| Total General Purpose Revenue | | | | | <u>1,681,668</u> |
| Change in net assets | | | | | 66,037 |
| Net assets - beginning | | | | | <u>2,356,322</u> |
| Net assets - ending | | | | | <u>\$ 2,422,359</u> |

The accompanying notes to financial statements are an integral part of this statement.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007

| | <u>General Fund</u> | <u>Vocational Education Fund</u> | <u>Special Education Fund</u> | <u>Other Governmental Funds Durant Capital Project Fund</u> | <u>Total Governmental Funds</u> |
|------------------------------------|---------------------|--|---------------------------------------|---|---|
| <u>ASSETS</u> | | | | | |
| Cash and Cash Equivalents (Note 2) | \$ 701,506 | \$ 0 | \$ 596,454 | \$ 30,838 | \$ 1,328,798 |
| Receivables: | | | | | |
| Employee | 587 | 0 | 0 | 0 | 587 |
| State of Michigan (Note 3) | 79,319 | 26,677 | 113,900 | 0 | 219,896 |
| Local Units | 11,103 | 49,927 | 103,829 | 0 | 164,859 |
| Due from Other Funds (Note 4) | 0 | 0 | 5,545 | 0 | 5,545 |
| Prepaid Expenses | <u>17,112</u> | <u>650</u> | <u>795</u> | <u>0</u> | <u>18,557</u> |
| Total Assets | <u>\$ 809,627</u> | <u>\$ 77,254</u> | <u>\$ 820,523</u> | <u>\$ 30,838</u> | <u>\$ 1,738,242</u> |
| <u>LIABILITIES AND FUND EQUITY</u> | | | | | |
| <u>Liabilities</u> | | | | | |
| Accounts Payable | \$ 12,387 | \$ 6,065 | \$ 12,561 | \$ 0 | \$ 31,013 |
| Due to Other Units | 0 | 0 | 133,895 | 0 | 133,895 |
| Due to Other Funds (Note 4) | 5,545 | 0 | 0 | 0 | 5,545 |
| Interest Payable | 0 | 0 | 2,771 | 0 | 2,771 |
| Accrued Expenditures | 1,457 | 6,411 | 16,066 | 0 | 23,934 |
| Salaries Payable | 0 | 36,142 | 90,562 | 0 | 126,704 |
| Deferred Revenue (Note 8) | <u>15,361</u> | <u>0</u> | <u>3,911</u> | <u>0</u> | <u>19,272</u> |
| Total Liabilities | <u>34,750</u> | <u>48,618</u> | <u>259,766</u> | <u>0</u> | <u>343,134</u> |
| <u>Fund Equity</u> | | | | | |
| Fund Balances: | | | | | |
| Reserved: | | | | | |
| Capital Projects | 0 | 0 | 0 | 30,838 | 30,838 |
| Unreserved, Reported In: | | | | | |
| General Fund | 774,877 | 0 | 0 | 0 | 774,877 |
| Special Revenue Funds | <u>0</u> | <u>28,636</u> | <u>560,757</u> | <u>0</u> | <u>589,393</u> |
| Total Fund Equity | <u>774,877</u> | <u>28,636</u> | <u>560,757</u> | <u>30,838</u> | <u>1,395,108</u> |
| Total Liabilities and Fund Equity | <u>\$ 809,627</u> | <u>\$ 77,254</u> | <u>\$ 820,523</u> | <u>\$ 30,838</u> | <u>\$ 1,738,242</u> |

The accompanying notes to financial statements are an integral part of this statement.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
June 30, 2007

Total governmental fund balances \$ 1,395,108

Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets used in governmental activities are not financial resources
and, therefore, are not reported as assets in governmental funds. Capital
assets at the year end consist of:

| | | |
|--|--------------------|-----------|
| Capital Asset Cost | \$ 5,074,296 | |
| Capital Asset Accumulated Depreciation | <u>(1,704,880)</u> | |
| | | 3,369,416 |

Accrued interest on long-term liabilities (68,469)

Long-term liabilities, including bonds payable, are not due and payable
in the current period and, therefore, are not reported as liabilities in
the governmental funds. Long-term liabilities at year end consist of:

| | | |
|------------------------------|-----------------|--------------------|
| Bonds Payable | (220,499) | |
| Notes Payable | (1,958,011) | |
| Compensated Absences Payable | <u>(95,186)</u> | |
| Total long-term liabilities | | <u>(2,273,696)</u> |

Total net assets - governmental activities \$ 2,422,359

The accompanying notes to financial statements are an integral part of this statement.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2007

| | General Fund | Vocational Education Fund | Special Education Fund | Other Governmental Funds Durant Capital Project Fund | Total Governmental Funds |
|--|-------------------|---------------------------------|------------------------------|--|--------------------------------|
| <u>Revenue</u> | | | | | |
| Local Sources: | | | | | |
| Current Property Taxes | \$ 304,140 | \$ 0 | \$ 912,415 | \$ 0 | \$ 1,216,555 |
| Tuition | 0 | 609,368 | 0 | 0 | 609,368 |
| Drivers Education Tuition | 183,514 | 0 | 0 | 0 | 183,514 |
| Transportation Fees | 0 | 0 | 45,380 | 0 | 45,380 |
| Interest on Investments | 18,697 | 0 | 32,686 | 1,508 | 52,891 |
| Contributions | 1,325 | 3,208 | 50 | 0 | 4,583 |
| Other Local Sources | 57,325 | 1,426 | 401,082 | 0 | 459,833 |
| State Sources | 651,267 | 171,649 | 609,287 | 0 | 1,432,203 |
| Federal Sources | 22,548 | 104,483 | 1,407,510 | 0 | 1,534,541 |
| Total revenue | <u>1,238,816</u> | <u>890,134</u> | <u>3,408,410</u> | <u>1,508</u> | <u>5,538,868</u> |
| <u>Expenditures</u> | | | | | |
| Current: | | | | | |
| Instruction | 0 | 531,375 | 1,560,189 | 0 | 2,091,564 |
| Support Services | 796,076 | 189,773 | 1,445,376 | 0 | 2,431,225 |
| Community Services | 150,281 | 0 | 73,157 | 0 | 223,438 |
| Outgoing Transfers to Other Districts | 13,398 | 71,854 | 211,477 | 0 | 296,729 |
| Capital Outlay | 50,143 | 0 | 69,511 | 0 | 119,654 |
| Debt Service: | | | | | |
| Principal Retirement | 23,329 | 117,600 | 62,613 | 0 | 203,542 |
| Interest and Fees on Long-Term Debt | 12,041 | 61,520 | 33,893 | 0 | 107,454 |
| Total expenditures | <u>1,045,268</u> | <u>972,122</u> | <u>3,456,216</u> | <u>0</u> | <u>5,473,606</u> |
| Excess of revenue over (under) expenditures | <u>193,548</u> | <u>(81,988)</u> | <u>(47,806)</u> | <u>1,508</u> | <u>65,262</u> |
| <u>Other Financing Sources (Uses)</u> | | | | | |
| Note Proceeds | 0 | 0 | 58,011 | 0 | 58,011 |
| Sale of Capital Assets | 0 | 4,000 | 0 | 0 | 4,000 |
| Operating Transfers In | 0 | 28,318 | 0 | 0 | 28,318 |
| Operating Transfers Out | (28,318) | 0 | 0 | 0 | (28,318) |
| Total other financing sources (uses) | <u>(28,318)</u> | <u>32,318</u> | <u>58,011</u> | <u>0</u> | <u>62,011</u> |
| Excess of revenue and other sources over (under) expenditures and other uses | 165,230 | (49,670) | 10,205 | 1,508 | 127,273 |
| Fund balances - beginning of year | <u>609,647</u> | <u>78,306</u> | <u>550,552</u> | <u>29,330</u> | <u>1,267,835</u> |
| Fund balances - end of year | <u>\$ 774,877</u> | <u>\$ 28,636</u> | <u>\$ 560,757</u> | <u>\$ 30,838</u> | <u>\$ 1,395,108</u> |

The accompanying notes to financial statements are an integral part of this statement.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2007

| | |
|--|------------|
| Total net change in fund balances - governmental funds | \$ 127,273 |
|--|------------|

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the cost of those assets is allocated over their
estimated useful lives as depreciation expense.

| | | |
|--|----------------|-----------|
| Current year depreciation expense | \$ (331,520) | |
| Capital outlays reported in the governmental funds | <u>119,654</u> | (211,866) |

Repayment of the debt principal is an expenditure in the governmental
funds, but the repayment reduces long-term liabilities in the statement of net
assets. This is the amount of repayments reported as expenditures in the
governmental funds.

| | |
|---------------|---------|
| Notes Payable | 203,542 |
|---------------|---------|

Proceeds from debt are a revenue in the governmental funds, but the
proceeds increase long-term liabilities in the statement of net assets. The
net effect of these differences in the treatment of debt is as follows:

| | |
|---------------|----------|
| Note Proceeds | (58,011) |
|---------------|----------|

Net change in accrued interest payable:

| | | |
|---|-----------------|-------|
| Accrued interest on long-term liabilities June 30, 2006 | 72,433 | |
| Accrued interest on long-term liabilities June 30, 2007 | <u>(68,469)</u> | 3,964 |

Net change in accrued compensated absences:

| | | |
|--|-----------------|--------------|
| Accrued compensated absences June 30, 2006 | 96,321 | |
| Accrued compensated absences June 30, 2007 | <u>(95,186)</u> | <u>1,135</u> |

| | |
|---|-------------------------|
| Change in net assets of governmental activities | \$ <u><u>66,037</u></u> |
|---|-------------------------|

The accompanying notes to financial statements are an integral part of this statement.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Iosco Regional Educational Service Agency (Agency) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. The Agency is considered to be a local government unit. The following is a summary of the significant accounting policies:

A. Reporting Entity

Iosco Regional Educational Service Agency provides special education services to students in Iosco County, Michigan and parts of the counties of Alcona, Arenac, and Ogemaw. The Agency operates under an elected Board of Education (five members) represented by members elected by delegates from local agencies in the Iosco Regional Educational Service Agency's service area. The Board is responsible for adopting and amending budgets and for administering the school programs in accordance with governing laws.

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Agency's reporting entity applies all relevant GASB pronouncements for determining the various governmental organizations to be included in the reporting entity. The Agency also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Iosco Regional Educational Service Agency's Board of Education (Board) is the primary government which has oversight responsibility and control over all activities related to public school education in the area served by the Iosco Regional Educational Service Agency. The Board receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. As such, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements since the Board members are a publicly elected governing body that has separate legal standing and is fiscally independent of other governmental entities.

B. Fund Accounting

The Agency uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Agency functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the Agency are grouped into the governmental category.

Governmental Funds

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Agency's major governmental funds:

General Fund - The General Fund is the general operating fund of the Agency. It is used to account for all financial resources except those required to be accounted for in another fund.

Vocational Education Fund - The Vocational Education Fund is used to account for all financial resources allocated for vocational education instruction and related supporting services within the Agency.

Special Education Fund - The Special Education Fund is used to account for all financial resources allocated for special education instruction and related supporting services within the Agency.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Fund Accounting (Continued)

The other governmental fund of the Agency accounts for the acquisition or construction of major capital facilities.

C. Basis of Presentation

Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the Agency as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the Agency that are governmental and those that are considered business-type activities. The Agency does not currently have any business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Agency's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Agency, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Agency.

Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue and capital project funds and the restrictions on their net asset use. Restricted assets are used first to fund appropriations before unrestricted assets are used.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Fund Financial Statements:

Fund financial statements report detailed information about the Agency. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The nonmajor fund is in a single column.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenue, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Agency, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the Agency receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Agency must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Agency on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available in advance, interest, tuition, grants, student fees and rentals.

Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

E. Cash and Cash Equivalents

During the fiscal year ended June 30, 2007, investments included the Michigan Liquid Asset Fund (MILAF). MILAF is an investment pool managed by Cadre Consulting, which allows school districts within the State of Michigan to pool their funds for investment purposes. Investments in MILAF are valued at cost which equals market value.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Cash and Cash Equivalents (Continued)

For presentation on the financial statements, investments in the cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Agency are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Due From State of Michigan

This represents amounts receivable from the State of Michigan for federal and state reimbursable programs.

G. Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the government-wide and fund financial statements.

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Agency does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

| <u>Descriptions</u> | <u>Governmental Activities Estimated Lives</u> |
|-----------------------------------|--|
| Buildings and Improvements | 20 - 50 years |
| Furniture, Fixtures and Equipment | 5 - 20 years |
| Vehicles and Buses | 8 years |

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due from/to other funds". These amounts are eliminated in the governmental columns of the statement of net assets.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. In general, payments made within 60 days after year end are considered to have been made with current available financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that will be paid from governmental funds are recognized as a liability in the fund financial statements when they become due for payment.

K. Compensated Absences

The Agency reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made based on accumulated sick leave and wage rates at year-end, taking into consideration limits specified in the Agency's termination policy.

The entire compensated absences liability is reported on the government-wide financial statements. For the governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported in the governmental fund financial statements.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Agency or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M. Governmental Fund Balance Reserves

The Agency reserves those portions of governmental fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. The purpose of the reserve is to provide a cash reserve for major replacements and/or repairs to facilities or equipment, and future debt service.

N. Property Taxes

The Agency levies its property taxes on December 1, and various municipalities collect its property taxes and remit them to the Agency through February. The delinquent real property taxes of the Agency are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The County sells tax notes, the proceeds of which have been used to pay the Agency for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Foundation Revenue

The State of Michigan has adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the Agency. For the year ended June 30, 2007, the foundation allowance was based on the average of pupil membership counts taken in February and September of 2006.

The state portion of the foundation allowance is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation allowance is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October, 2006 - August, 2007. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

P. State Categorical Revenue

The Agency also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

Q. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/ expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/ expenses to the funds that initially paid for them are not presented on the financial statements.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended June 30, 2007.

S. Economic Dependency

The Agency received approximately 50% of their revenue from the Michigan Department of Education. Due to the significance of this revenue source to the Agency, the Agency is considered to be economically dependent.

T. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U. Budgetary Policies and Data

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds and an informational study for Capital Project Funds of school districts prior to the expenditure of monies in a fiscal year in accordance with GAAP.

Iosco Regional Educational Service Agency follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Agency's Superintendent submits to the Board a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations.
4. Appropriations lapse at year-end and therefore cancel all encumbrances. These appropriations are re-established at the beginning of the following year.

V. Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

NOTE 2 - DEPOSITS AND INVESTMENTS

At year-end, the Agency's deposits and investments were reported in the basic financial statements in the following categories:

Cash and Cash Equivalents \$ 1,328,798

The breakdown between deposits and investments is as follows:

| | <u>Primary Government</u> |
|---|-------------------------------|
| Bank Deposits (Checking and Savings Accounts) | \$ 475,185 |
| Investments in Pooled Funds | 853,413 |
| Petty Cash and Cash on Hand | <u>200</u> |
| Total | \$ <u>1,328,798</u> |

As of June 30, 2007, the Agency had the following investments.

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Specific Identification Maturities</u> |
|------------------------|-----------------------|---|
| Investment pools | \$ <u>853,413</u> | Daily |

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk

In accordance with its investment policy, the Agency will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools, and limiting the average maturity in accordance with the Agency's cash requirements.

Credit Risk

State law authorizes investments in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district. As of June 30, 2007, the Agency's investment in the investment pool was rated AAAm by Standard & Poor's.

Concentration of Credit Risk

The Agency will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Agency's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. Investments in U.S. Treasury securities and those other securities completely guaranteed by the Treasury as to payment of principal and interest may be purchased in any dollar amount or up to 100% of the available reserve.

Investments in other types of authorized securities may be made with the provision that no more than fifty percent of the total current investment portfolio consists of one type of security.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. As of June 30, 2007, \$405,947 of the Agency's bank balance of \$605,947 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Agency will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities approved in the District's Investment policy which is in accordance with State law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Agency will do business.

Foreign Currency Risk

The Agency is not authorized to invest in investments which have this type of risk.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE 3 - RECEIVABLES

Receivables at June 30, 2007, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (from the State of Michigan) follows:

| <u>Governmental Activities</u> | <u>Amount</u> |
|--------------------------------|-------------------|
| State Aid | \$ <u>219,896</u> |

NOTE 4 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables as of June 30, 2007 were as follows:

| <u>Fund</u> | <u>Interfund Receivable</u> | <u>Interfund Payable</u> |
|---------------------------|---------------------------------|------------------------------|
| Major Governmental Funds: | | |
| General Fund | \$ 0 | \$ 5,545 |
| Special Education Fund | <u>5,545</u> | <u>0</u> |
| | <u>\$ 5,545</u> | <u>\$ 5,545</u> |

The amounts of interfund receivables and payables for individual funds as of June 30, 2007 are as follows:

| <u>Fund</u> | <u>Interfund Receivable</u> | <u>Fund</u> | <u>Interfund Payable</u> |
|------------------------|---------------------------------|--------------|------------------------------|
| Special Education Fund | <u>\$ 5,545</u> | General Fund | <u>\$ 5,545</u> |

These balances result from the time lag between the dates that interfund goods and services are provided, transactions are recorded in the accounting system, and payments between funds are made.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

| | Balance July 1, 2006 | Additions | Deletions | Balance June 30, 2007 |
|---------------------------------------|-------------------------|---------------------|-----------------|--------------------------|
| <u>Governmental Activities</u> | | | | |
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 266,900 | \$ 0 | \$ 0 | \$ 266,900 |
| Capital Assets Being Depreciated: | | | | |
| Buildings and Improvements | 3,003,167 | 32,510 | 0 | 3,035,677 |
| Furniture, Fixtures and Equipment | 1,160,176 | 12,312 | (40,904) | 1,131,584 |
| Vehicles and Buses | 565,303 | 74,832 | 0 | 640,135 |
| Subtotal | <u>4,728,646</u> | <u>119,654</u> | <u>(40,904)</u> | <u>4,807,396</u> |
| Less Accumulated Depreciation for: | | | | |
| Buildings and Improvements | (269,950) | (68,006) | 0 | (337,956) |
| Furniture, Fixtures and Equipment | (782,268) | (204,596) | 40,904 | (945,960) |
| Vehicles and Buses | (362,046) | (58,918) | 0 | (420,964) |
| Subtotal | <u>(1,414,264)</u> | <u>(331,520)</u> | <u>40,904</u> | <u>(1,704,880)</u> |
| Capital Assets Being Depreciated | <u>3,314,382</u> | <u>(211,866)</u> | <u>0</u> | <u>3,102,516</u> |
| Governmental Activities Total | | | | |
| Capital Assets - Net of Depreciation | <u>\$ 3,581,282</u> | <u>\$ (211,866)</u> | <u>\$ 0</u> | <u>\$ 3,369,416</u> |

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE 6 - SHORT-TERM DEBT

The Agency has various options for short-term financing including tax anticipation notes, state aid anticipation notes and lines of credit.

The Agency did not enter into any short-term financing arrangements during the fiscal year ending June 30, 2007.

NOTE 7 - LONG-TERM LIABILITIES

A. Bonds Payable

| | Date of Contract | Principal Due | Interest | Total Obligation |
|--|---------------------|-------------------|------------------|---------------------|
| School Improvement Bonds: | | | | |
| The bonds dated November 24, 1998 which bear interest from 4.76% to 8% are due serially each May 15 through 2013. Payments are made from the Durant Bond Debt Retirement Fund. | 1998 | \$ <u>220,499</u> | \$ <u>60,587</u> | \$ <u>281,086</u> |

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)

B. Notes Payable

| | <u>Date of Contract</u> | <u>Principal Due</u> | <u>Interest</u> | <u>Total Obligation</u> |
|--|-----------------------------|--------------------------|-------------------|-----------------------------|
| Building and Equipment Note: | | | | |
| B & B General Contracting, Inc. Subsequently assigned to Comerica Securities, Inc. The note dated June 26, 2001 which bears interest at 5.1%, is due annually each August 15 through 2015. Interest is due semi- annually on February 15 and August 15 of each year. Payments are made from the General Fund, the Vocational Education Fund and the Special Education Fund. | 2001 | \$ 1,400,000 | \$ 290,700 | \$ 1,690,700 |
| Building and Equipment Note: | | | | |
| B & B General Contracting, Inc. Subsequently assigned to Comerica Securities, Inc. The note dated April 11, 2002 which bears interest at 5.625%, is due annually each August 15, beginning 2011 through 2014. Interest is due semi-annually on February 15 and August 15 of each year. Payments are made from the General Fund, the Vocational Education Fund and the Special Education Fund. | 2002 | 500,000 | 171,563 | 671,563 |
| Vehicle Note: | | | | |
| Daimler-Chrysler Services North America LLC. The note dated August 21, 2006 which bears interest at 5.57%, is payable in annual installments of \$21,562 each September 1 through 2010. Payments are made from the Special Education Fund. | 2007 | <u>58,011</u> | <u>6,673</u> | <u>64,684</u> |
| Total Notes Payable | | <u>\$ 1,958,011</u> | <u>\$ 468,936</u> | <u>\$ 2,426,947</u> |

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)

The annual principal and interest requirements for long-term debt for the years after June 30, 2007 are as follows:

| | Government Activities | | |
|-------------|-----------------------|-------------------|---------------------|
| | Principal | Interest | Total |
| 2008 | \$ 218,241 | \$ 97,746 | \$ 315,987 |
| 2009 | 240,129 | 91,882 | 332,011 |
| 2010 | 242,195 | 79,615 | 321,810 |
| 2011 | 329,021 | 110,997 | 440,018 |
| 2012 | 233,893 | 55,410 | 289,303 |
| 2013 - 2016 | <u>915,031</u> | <u>93,873</u> | <u>1,008,904</u> |
| Total | \$ <u>2,178,510</u> | \$ <u>529,523</u> | \$ <u>2,708,033</u> |

The annual State of Michigan appropriation, through the State Aid payments, is the only revenue source for making the annual debt service payment on the school improvement bonds. If the legislature fails to appropriate the funds, the Agency is under no obligation for payment.

C. Compensated Absences Payable

The Agency has an employee benefit plan that allows employees to accumulate an unlimited amount of sick and vacation pay days based upon contractual agreements. Certified and support staff are paid at \$35 per day; administrative employees are paid for ½ of their accumulated time not to exceed 60 days; and the superintendent is paid up to 120 days at \$50 per day. The amount of accumulated sick and vacation pay liability for the Agency was \$95,186 at June 30, 2007, of which \$0 was the estimated current portion.

D. Changes in Long-Term Liabilities

The following is a summary of long-term debt transactions of the Agency for the year ended June 30, 2007:

| | Balance July 1, 2006 | Increase | Decrease | Balance June 30, 2007 | Amount Due in One Year |
|--------------------------------|-------------------------|------------------|---------------------|--------------------------|------------------------------|
| <u>Governmental Activities</u> | | | | | |
| Bonds Payable | \$ 220,499 | \$ 0 | \$ 0 | \$ 220,499 | \$ 0 |
| Notes Payable | 2,103,542 | 58,011 | (203,542) | 1,958,011 | 218,241 |
| Compensated Absences Payable | <u>96,321</u> | <u>0</u> | <u>(1,135)*</u> | <u>95,186</u> | <u>0</u> |
| Total Long-Term Liabilities | \$ <u>2,420,362</u> | \$ <u>58,011</u> | \$ <u>(204,677)</u> | \$ <u>2,273,696</u> | \$ <u>218,241</u> |

*Represents net of additions and retirements for the year.

The payment dates of compensated absences payable are undeterminable.

The interest expenditures on long-term obligations for the year were \$104,683.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE 8 - DEFERRED REVENUE

Governmental funds defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

| | <u>Unearned</u> |
|--------------------------------|------------------|
| General Fund: | |
| Great Parents ISD 0-5 | \$ 14,314 |
| Middle School Math and Science | 1,047 |
| Special Education Fund: | |
| Early On Michigan | <u>3,911</u> |
| Total | <u>\$ 19,272</u> |

NOTE 9 - OPERATING TRANSFERS

During the year ended June 30, 2007, the following transfers were made:

| <u>Description</u> | <u>Operating Transfers In</u> | <u>Operating Transfers Out</u> |
|---------------------------|-----------------------------------|------------------------------------|
| Major Governmental Funds: | | |
| General Fund | \$ 0 | \$ 28,318 |
| Vocational Education Fund | <u>28,318</u> | <u>0</u> |
| | <u>\$ 28,318</u> | <u>\$ 28,318</u> |

Interfund transfers for the year ended June 30, 2007 consisted of the following:

| <u>Fund</u> | <u>Transfer In</u> | <u>Fund</u> | <u>Transfer Out</u> |
|---------------------------|--------------------|--------------|---------------------|
| Vocational Education Fund | \$ <u>28,318</u> | General Fund | \$ <u>28,318</u> |

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 10 - RETIREMENT PLANS

Defined Benefit Plan

The Iosco Regional Educational Service Agency contributes to the Michigan Public School Employee's Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Michigan Public School Employee's Retirement System. MPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Public Act 300 of 1980 of the State of Michigan, as amended, assigns the authority to establish and amend benefit provisions to the MPERS Board. MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. The report may be obtained by writing to MPERS, 7150 Harris Drive, P.O. Box 30673, Lansing, Michigan 48909-8103.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE 10 - RETIREMENT PLANS (CONTINUED)

Funding Policy

Effective January 1, 1987, employees who were MPSERS members could have elected to contribute on a tax deferred basis to a Member Investment Plan (MIP). MIP members enrolled prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Employees first hired January 1, 1990 or later will automatically be included in the MIP and will contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. For a limited period ending January 1, 1993, an active basic plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment.

During the plan fiscal year 2006, employer contributions were 16.34% of covered compensation as agencies were responsible for the entire pension and health insurance contribution. After September 30, 2006, the contribution rate increased to 17.74% of covered compensation. The contribution requirements of plan members and Iosco Regional Educational Service Agency are established and may be amended by the MPSERS Board. The Agency's contributions to MPSERS for the years ending June 30, 2007, 2006 and 2005 were \$366,953, \$317,673 and \$268,180, respectively, equal to the required contributions for each year.

The MPSERS also provides for death and disability benefits which are established by state statute. Under the MPSERS Act, all retirees have the option of continuing health, dental and vision insurance coverage. All health care benefits under the MPSERS are on a self-insured pay-as-you-go basis. Retirees electing these coverages pay a portion of the premium for this coverage from their monthly pension benefit.

Deferred Compensation Plans

The Agency offers its employees participation in the Tax-Deferred Payments (TDP) program through MPSERS. The program, available to all full-time employees who are members of the retirement system, permits them to defer a portion of their salary until future years for the purchase of additional years of service credit. Employees are eligible to voluntarily participate from the date of employment, however once an employee begins payments in the program, they must continue until completion of the purchase of the service credit or termination of employment from Iosco Regional Educational Service Agency. Payments into the program are vested once 10 years of service credit have been earned through the MPSERS. Employee contributions to the TDP program totaled \$30,001 for the year ended June 30, 2007.

The Agency also offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 403(b). The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. Employees are eligible to voluntarily participate from the date of employment and are vested immediately upon participation. Employee contributions to the Section 403(b) plan totaled \$58,580 for the year ended June 30, 2007. The assets of the plan are administered and held by various approved third party financial institutions.

NOTE 11 - UNEMPLOYMENT COMPENSATION

The Agency is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the Agency must reimburse the Employment Agency for all benefits charged against the Agency. Accrued unemployment compensation was \$0 as of June 30, 2007.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE 12 - RISK MANAGEMENT

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Agency participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property, casualty and workers' disability compensation. The pools are considered public entity risk pools. The Agency pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. Each of the pools maintain reinsurance claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The Agency has not been informed of any special assessments being required.

The Agency continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 13 - GOVERNMENTAL REGULATION

Substantially all of the Agency's facilities are subject to federal, state and local provisions regulating the discharge of materials into the environment. Compliance with these provisions has not had, nor does the Agency expect such compliance to have, any material effect upon the capital expenditures, net revenue in excess of expenditures or financial condition of the Agency. Management believes that its current practices and procedures for the control and disposition of such wastes comply with applicable federal and state requirements.

NOTE 14 - CONTINGENCIES AND COMMITMENTS

The Agency participates in a number of federally assisted grant programs which are subject to program compliance audits. The audits of these programs for and including the year ended June 30, 2007, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the Agency expects such amounts, if any, to be immaterial.

NOTE 15 - COMPARATIVE DATA

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the Agency's financial position and operations.

REQUIRED SUPPLEMENTARY INFORMATION

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2007

| | Original Budget | Amended Budget | Actual | Variance - Favorable (Unfavorable) |
|---|--------------------|-------------------|-------------------|--|
| <u>Revenue</u> | | | | |
| Local Sources | \$ 526,557 | \$ 519,158 | \$ 565,001 | \$ 45,843 |
| State Sources | 538,074 | 638,030 | 651,267 | 13,237 |
| Federal Sources | 21,441 | 22,413 | 22,548 | 135 |
| Total revenue | <u>1,086,072</u> | <u>1,179,601</u> | <u>1,238,816</u> | <u>59,215</u> |
| <u>Expenditures</u> | | | | |
| Current: | | | | |
| Support Services | 848,074 | 894,040 | 796,076 | 97,964 |
| Community Services | 148,889 | 158,649 | 150,281 | 8,368 |
| Outgoing Transfers to Other Districts | 16,347 | 14,254 | 13,398 | 856 |
| Capital Outlay | 37,695 | 51,963 | 50,143 | 1,820 |
| Debt Service: | | | | |
| Principal Retirement | 23,000 | 23,500 | 23,329 | 171 |
| Interest and Fees on Long-Term Debt | 12,067 | 12,042 | 12,041 | 1 |
| Total expenditures | <u>1,086,072</u> | <u>1,154,448</u> | <u>1,045,268</u> | <u>109,180</u> |
| Excess of revenue over (under) expenditures | 0 | 25,153 | 193,548 | 168,395 |
| <u>Other Financing Uses</u> | | | | |
| Operating Transfers Out | <u>(59,399)</u> | <u>(36,466)</u> | <u>(28,318)</u> | <u>8,148</u> |
| Excess of revenue over (under) expenditures and other uses | (59,399) | (11,313) | 165,230 | 176,543 |
| Fund balances - beginning of year | <u>609,647</u> | <u>609,647</u> | <u>609,647</u> | <u>0</u> |
| Fund balances - end of year | <u>\$ 550,248</u> | <u>\$ 598,334</u> | <u>\$ 774,877</u> | <u>\$ 176,543</u> |

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
VOCATIONAL EDUCATION FUND
For the Year Ended June 30, 2007

| | Original Budget | Amended Budget | Actual | Variance - Favorable (Unfavorable) |
|--|--------------------|-------------------|------------------|--|
| <u>Revenue</u> | | | | |
| Local Sources | \$ 644,820 | \$ 611,370 | \$ 614,002 | \$ 2,632 |
| State Sources | 173,827 | 171,649 | 171,649 | 0 |
| Federal Sources | 114,239 | 104,483 | 104,483 | 0 |
| Total revenue | <u>932,886</u> | <u>887,502</u> | <u>890,134</u> | <u>2,632</u> |
| <u>Expenditures</u> | | | | |
| Current: | | | | |
| Instruction | 559,583 | 559,050 | 531,375 | 27,675 |
| Support Services | 202,598 | 196,249 | 189,773 | 6,476 |
| Outgoing Transfers to Other Districts | 70,520 | 71,855 | 71,854 | 1 |
| Debt Service: | | | | |
| Principal Retirement | 117,600 | 117,600 | 117,600 | 0 |
| Interest and Fees on Long-Term Debt | <u>61,720</u> | <u>61,520</u> | <u>61,520</u> | <u>0</u> |
| Total expenditures | <u>1,012,021</u> | <u>1,006,274</u> | <u>972,122</u> | <u>34,152</u> |
| Excess of revenue over (under) expenditures | <u>(79,135)</u> | <u>(118,772)</u> | <u>(81,988)</u> | <u>36,784</u> |
| <u>Other Financing Sources</u> | | | | |
| Sale of Capital Assets | 0 | 4,000 | 4,000 | 0 |
| Operating Transfers In | <u>59,399</u> | <u>36,466</u> | <u>28,318</u> | <u>(8,148)</u> |
| Total other financing sources | <u>59,399</u> | <u>40,466</u> | <u>32,318</u> | <u>(8,148)</u> |
| Excess of revenue and other sources over (under) expenditures | <u>(19,736)</u> | <u>(78,306)</u> | <u>(49,670)</u> | <u>28,636</u> |
| Fund balances - beginning of year | <u>78,306</u> | <u>78,306</u> | <u>78,306</u> | <u>0</u> |
| Fund balances - end of year | <u>\$ 58,570</u> | <u>\$ 0</u> | <u>\$ 28,636</u> | <u>\$ 28,636</u> |

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
SPECIAL EDUCATION FUND
For the Year Ended June 30, 2007

| | Original Budget | Amended Budget | Actual | Variance - Favorable (Unfavorable) |
|--|--------------------|-------------------|-------------------|--|
| <u>Revenue</u> | | | | |
| Local Sources | \$ 1,347,656 | \$ 1,381,491 | \$ 1,391,613 | \$ 10,122 |
| State Sources | 702,589 | 609,287 | 609,287 | 0 |
| Federal Sources | 1,426,165 | 1,392,984 | 1,407,510 | 14,526 |
| Total revenue | <u>3,476,410</u> | <u>3,383,762</u> | <u>3,408,410</u> | <u>24,648</u> |
| <u>Expenditures</u> | | | | |
| Current: | | | | |
| Instruction | 1,731,147 | 1,625,965 | 1,560,189 | 65,776 |
| Support Services | 1,307,463 | 1,496,346 | 1,445,376 | 50,970 |
| Community Services | 70,929 | 75,729 | 73,157 | 2,572 |
| Outgoing Transfers to Other Districts | 205,722 | 213,000 | 211,477 | 1,523 |
| Capital Outlay | 67,000 | 70,021 | 69,511 | 510 |
| Debt Service: | | | | |
| Principal Retirement | 59,400 | 62,640 | 62,613 | 27 |
| Interest and Fees on Long-Term Debt | 34,749 | 34,414 | 33,893 | 521 |
| Total expenditures | <u>3,476,410</u> | <u>3,578,115</u> | <u>3,456,216</u> | <u>121,899</u> |
| Excess of revenue over (under) expenditures | 0 | (194,353) | (47,806) | 146,547 |
| <u>Other Financing Sources</u> | | | | |
| Note Proceeds | <u>0</u> | <u>58,011</u> | <u>58,011</u> | <u>0</u> |
| Excess of revenue and other sources over (under) expenditures | 0 | (136,342) | 10,205 | 146,547 |
| Fund balances - beginning of year | <u>550,552</u> | <u>550,552</u> | <u>550,552</u> | <u>0</u> |
| Fund balances - end of year | <u>\$ 550,552</u> | <u>\$ 414,210</u> | <u>\$ 560,757</u> | <u>\$ 146,547</u> |

OTHER INFORMATION

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

GENERAL FUND
 DETAILS OF REVENUE COMPARED TO BUDGET
 For the Year Ended June 30, 2007
With Comparative Totals for the Year Ended June 30, 2006

| | 2007 Amended Budget | 2007 Actual | 2006 Actual |
|---|---------------------------|---------------------|---------------------|
| <u>Local Sources</u> | | | |
| Current Property Taxes | \$ 295,961 | \$ 304,140 | \$ 291,494 |
| Drivers Education Tuition | 167,556 | 183,514 | 202,801 |
| Interest on Investments | 17,500 | 18,697 | 12,256 |
| Contributions | 0 | 1,325 | 1,500 |
| Miscellaneous Local Sources | 38,141 | 57,325 | 195,507 |
| | <u>519,158</u> | <u>565,001</u> | <u>703,558</u> |
| <u>State Sources</u> | | | |
| State Aid Foundation Allowance | 534,123 | 524,096 | 449,294 |
| Durant II | 37,343 | 37,343 | 37,343 |
| Math/Science | 8,525 | 7,473 | 3,716 |
| ORV Safety Training Grant | 520 | 0 | 520 |
| Motorcycle Safety Grant | 43,669 | 67,915 | 32,279 |
| Strong Families/Safe Children | 13,850 | 14,440 | 0 |
| | <u>638,030</u> | <u>651,267</u> | <u>523,152</u> |
| <u>Federal Sources</u> | | | |
| ECIA Title I | 0 | 0 | 3,334 |
| ECIA Title II- Improving Teacher Quality | 199 | 199 | 199 |
| Title V | 454 | 454 | 1,069 |
| Medicaid Outreach | 0 | 0 | 13,019 |
| Eisenhower Professional Development Grant | 18,610 | 18,610 | 27,441 |
| Postive Youth Development Grant | 0 | 0 | 15,973 |
| Homeland Security Grant | 0 | 0 | 1,333 |
| Strong Families/Safe Children | 3,150 | 3,285 | 19,490 |
| | <u>22,413</u> | <u>22,548</u> | <u>81,858</u> |
| <u>Other Financing Sources</u> | | | |
| Loan Proceeds | 0 | 0 | 17,679 |
| Total Revenue and Other Financing Sources | <u>\$ 1,179,601</u> | <u>\$ 1,238,816</u> | <u>\$ 1,326,247</u> |

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

GENERAL FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2007
With Comparative Totals for the Year Ended June 30, 2006

| | 2007 Amended Budget | 2007 Actual | 2006 Actual |
|-------------------------------|---------------------------|----------------|----------------|
| <u>Support Services</u> | | | |
| Pupil Services: | | | |
| Attendance Services | | | |
| Purchased Services | \$ 32,450 | \$ 30,786 | \$ 27,714 |
| Supplies, Materials and Other | <u>250</u> | <u>0</u> | <u>221</u> |
| | <u>32,700</u> | <u>30,786</u> | <u>27,935</u> |
| Health Services | | | |
| Purchased Services | 0 | 0 | 12,637 |
| Supplies, Materials and Other | <u>0</u> | <u>0</u> | <u>381</u> |
| | <u>0</u> | <u>0</u> | <u>13,018</u> |
| Pupil Support Services | | | |
| Purchased Services | <u>7,500</u> | <u>6,922</u> | <u>10,377</u> |
| Total Pupil Services | <u>40,200</u> | <u>37,708</u> | <u>51,330</u> |
| Instructional Staff: | | | |
| Instructional Improvement | | | |
| Salaries | 42,226 | 42,229 | 41,500 |
| Employee Benefits | 18,037 | 17,508 | 17,226 |
| Purchased Services | 55,434 | 38,474 | 56,320 |
| Supplies, Materials and Other | <u>4,480</u> | <u>1,849</u> | <u>3,483</u> |
| | <u>120,177</u> | <u>100,060</u> | <u>118,529</u> |
| General Administration: | | | |
| Board of Education | | | |
| Salaries | 3,000 | 2,365 | 2,190 |
| Purchased Services | 43,400 | 19,221 | 13,169 |
| Supplies, Materials and Other | <u>4,350</u> | <u>3,729</u> | <u>8,152</u> |
| | <u>50,750</u> | <u>25,315</u> | <u>23,511</u> |
| Executive Administration | | | |
| Salaries | 142,697 | 142,697 | 140,243 |
| Employee Benefits | 37,714 | 36,289 | 28,178 |
| Purchased Services | 4,700 | 3,439 | 5,111 |
| Supplies, Materials and Other | <u>2,460</u> | <u>2,061</u> | <u>2,095</u> |
| | <u>187,571</u> | <u>184,486</u> | <u>175,627</u> |
| Total General Administration | <u>238,321</u> | <u>209,801</u> | <u>199,138</u> |

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

GENERAL FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2007
With Comparative Totals for the Year Ended June 30, 2006

| | 2007 Amended Budget | 2007 Actual | 2006 Actual |
|-------------------------------------|---------------------------|----------------|----------------|
| <u>Support Services</u> (Continued) | | | |
| School Administration: | | | |
| Other Administration | | | |
| Salaries | \$ 43,000 | \$ 42,984 | \$ 49,843 |
| Employee Benefits | 29,267 | 24,516 | 36,013 |
| Purchased Services | 11,500 | 10,065 | 10,947 |
| Supplies, Materials and Other | 7,076 | 6,181 | 6,303 |
| | <u>90,843</u> | <u>83,746</u> | <u>103,106</u> |
| Business: | | | |
| Fiscal Services | | | |
| Salaries | 16,507 | 16,507 | 14,025 |
| Employee Benefits | 8,371 | 8,278 | 8,089 |
| Supplies, Materials and Other | 7,006 | 6,683 | 34,273 |
| Other Expenditures | 177 | 163 | 242 |
| | <u>32,061</u> | <u>31,631</u> | <u>56,629</u> |
| Operations and Maintenance: | | | |
| Purchased Services | 20,575 | 17,886 | 20,347 |
| Supplies, Materials and Other | 29,483 | 9,314 | 2,431 |
| | <u>50,058</u> | <u>27,200</u> | <u>22,778</u> |
| Transportation: | | | |
| Salaries | 16,750 | 12,851 | 17,353 |
| Employee Benefits | 14,302 | 12,076 | 12,105 |
| Purchased Services | 152,122 | 147,394 | 126,214 |
| Supplies, Materials and Other | 18,000 | 16,589 | 23,199 |
| | <u>201,174</u> | <u>188,910</u> | <u>178,871</u> |
| Central Services: | | | |
| Staff and Personnel Services | | | |
| Salaries | 53,770 | 53,769 | 49,808 |
| Employee Benefits | 14,729 | 14,540 | 13,061 |
| | <u>68,499</u> | <u>68,309</u> | <u>62,869</u> |
| Technology | | | |
| Salaries | 13,475 | 13,191 | 0 |
| Employee Benefits | 3,797 | 3,649 | 0 |
| Purchased Services | 5,000 | 4,984 | 11,641 |
| Supplies, Materials and Other | 30,435 | 26,887 | 36,342 |
| | <u>52,707</u> | <u>48,711</u> | <u>47,983</u> |
| Total Central Services | <u>121,206</u> | <u>117,020</u> | <u>110,852</u> |
| Total Support Services | <u>894,040</u> | <u>796,076</u> | <u>841,233</u> |

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

GENERAL FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2007
With Comparative Totals for the Year Ended June 30, 2006

| | 2007 Amended Budget | 2007 Actual | 2006 Actual |
|--|---------------------------|---------------------|---------------------|
| <u>Community Services</u> | | | |
| Other Community Services: | | | |
| Salaries | \$ 10,425 | \$ 9,750 | \$ 0 |
| Employee Benefits | 2,600 | 2,438 | 0 |
| Purchased Services | 74,675 | 70,855 | 67,828 |
| Supplies, Materials and Other | 70,949 | 67,238 | 60,222 |
| | <u>158,649</u> | <u>150,281</u> | <u>128,050</u> |
| <u>Outgoing Transfers to Other Districts</u> | | | |
| Title V | <u>14,254</u> | <u>13,398</u> | <u>13,706</u> |
| <u>Capital Outlay</u> | | | |
| Support Services | 39,443 | 38,723 | 161,320 |
| Community Services | <u>12,520</u> | <u>11,420</u> | <u>7,680</u> |
| Total Capital Outlay | <u>51,963</u> | <u>50,143</u> | <u>169,000</u> |
| <u>Debt Service</u> | | | |
| Principal Retirement | 23,500 | 23,329 | 36,858 |
| Interest and Fees on Long-Term Debt | <u>12,042</u> | <u>12,041</u> | <u>13,290</u> |
| Total Debt Service | <u>35,542</u> | <u>35,370</u> | <u>50,148</u> |
| <u>Operating Transfers Out</u> | | | |
| Vocational Education Fund | <u>36,466</u> | <u>28,318</u> | <u>0</u> |
| Total Expenditures and Transfers | <u>\$ 1,190,914</u> | <u>\$ 1,073,586</u> | <u>\$ 1,202,137</u> |

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

VOCATIONAL EDUCATION FUND
 DETAILS OF REVENUE COMPARED TO BUDGET
 For the Year Ended June 30, 2007
With Comparative Totals for the Year Ended June 30, 2006

| | 2007 Amended Budget | 2007 Actual | 2006 Actual |
|---|---------------------------|-------------------|-------------------|
| <u>Local Sources</u> | | | |
| Tuition | \$ 604,195 | \$ 609,368 | \$ 625,708 |
| Contributions | 5,000 | 3,208 | 5,232 |
| Miscellaneous Local Sources | 2,175 | 1,426 | 4,055 |
| | <u>611,370</u> | <u>614,002</u> | <u>634,995</u> |
| <u>State Sources</u> | | | |
| Vocational Education | 146,659 | 146,659 | 145,036 |
| Michigan Rehab Services | 24,990 | 24,990 | 25,070 |
| | <u>171,649</u> | <u>171,649</u> | <u>170,106</u> |
| <u>Federal Sources</u> | | | |
| Adult Education | 0 | 0 | 19,533 |
| Career and Technical Education | 104,483 | 104,483 | 114,239 |
| | <u>104,483</u> | <u>104,483</u> | <u>133,772</u> |
| <u>Other Financing Sources</u> | | | |
| Sale of Capital Assets | 4,000 | 4,000 | 0 |
| Operating Transfers In | 36,466 | 28,318 | 0 |
| | <u>40,466</u> | <u>32,318</u> | <u>0</u> |
| Total Revenue and Other Financing Sources | <u>\$ 927,968</u> | <u>\$ 922,452</u> | <u>\$ 938,873</u> |

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

VOCATIONAL EDUCATION FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2007
With Comparative Totals for the Year Ended June 30, 2006

| | 2007 Amended Budget | 2007 Actual | 2006 Actual |
|--|---------------------------|-------------------|---------------------|
| <u>Instruction</u> | | | |
| Added Needs: | | | |
| Vocational Education | | | |
| Salaries | \$ 285,857 | \$ 283,767 | \$ 288,676 |
| Employee Benefits | 178,112 | 169,429 | 170,441 |
| Purchased Services | 62,080 | 49,434 | 65,061 |
| Supplies, Materials and Other | 33,001 | 28,745 | 50,961 |
| | <u>559,050</u> | <u>531,375</u> | <u>575,139</u> |
| <u>Support Services</u> | | | |
| School Administration: | | | |
| Office of the Principal | | | |
| Salaries | 52,296 | 51,529 | 54,147 |
| Employee Benefits | 28,622 | 27,717 | 36,899 |
| Purchased Services | 15,350 | 14,236 | 12,617 |
| Supplies, Materials and Other | 6,500 | 5,871 | 6,120 |
| | <u>102,768</u> | <u>99,353</u> | <u>109,783</u> |
| Operations and Maintenance: | | | |
| Purchased Services | <u>81,210</u> | <u>79,196</u> | <u>80,213</u> |
| Central Services: | | | |
| Technology | | | |
| Salaries | 4,612 | 4,611 | 0 |
| Employee Benefits | 1,259 | 1,210 | 0 |
| Purchased Services | 5,300 | 4,984 | 11,641 |
| Supplies, Materials and Other | 1,100 | 419 | 2,323 |
| | <u>12,271</u> | <u>11,224</u> | <u>13,964</u> |
| Total Support Services | <u>196,249</u> | <u>189,773</u> | <u>203,960</u> |
| <u>Outgoing Transfers to Other Districts</u> | | | |
| Vocational Education: | | | |
| Hale Area Schools | 3,410 | 3,410 | 2,695 |
| Oscoda Area Schools | 26,815 | 26,815 | 28,370 |
| Tawas Area Schools | 37,293 | 37,292 | 28,526 |
| Whittemore Prescott Schools | 4,337 | 4,337 | 2,847 |
| | <u>71,855</u> | <u>71,854</u> | <u>62,438</u> |
| Total Outgoing Transfers to Other Districts | <u>71,855</u> | <u>71,854</u> | <u>62,438</u> |
| <u>Debt Service</u> | | | |
| Principal Retirement | 117,600 | 117,600 | 94,080 |
| Interest and Fees on Long-Term Debt | 61,520 | 61,520 | 67,132 |
| Total Debt Service | <u>179,120</u> | <u>179,120</u> | <u>161,212</u> |
| Total Expenditures and Transfers | <u>\$ 1,006,274</u> | <u>\$ 972,122</u> | <u>\$ 1,002,749</u> |

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SPECIAL EDUCATION FUND
 DETAILS OF REVENUE COMPARED TO BUDGET
 For the Year Ended June 30, 2007
With Comparative Totals for the Year Ended June 30, 2006

| | 2007 Amended Budget | 2007 Actual | 2006 Actual |
|---|---------------------------|---------------------|---------------------|
| <u>Local Sources</u> | | | |
| Current Property Taxes | \$ 910,326 | \$ 912,415 | \$ 874,473 |
| Transportation Fees | 45,000 | 45,380 | 14,875 |
| Interest on Investments | 30,500 | 32,686 | 30,659 |
| Contributions | 0 | 50 | 304 |
| Medicaid Fee for Service | 305,300 | 303,478 | 273,417 |
| Miscellaneous Local Sources | 90,365 | 97,604 | 59,192 |
| | <u>1,381,491</u> | <u>1,391,613</u> | <u>1,252,920</u> |
| <u>State Sources</u> | | | |
| Special Education | <u>609,287</u> | <u>609,287</u> | <u>628,678</u> |
| <u>Federal Sources</u> | | | |
| Medicaid Outreach | 13,500 | 17,482 | 12,423 |
| Special Education | 1,376,884 | 1,387,401 | 1,417,807 |
| National School Lunch Program | 2,600 | 2,627 | 2,430 |
| | <u>1,392,984</u> | <u>1,407,510</u> | <u>1,432,660</u> |
| <u>Other Financing Sources</u> | | | |
| Note Proceeds | 58,011 | 58,011 | 56,308 |
| Sale of Capital Assets | 0 | 0 | 1,233 |
| | <u>58,011</u> | <u>58,011</u> | <u>57,541</u> |
| Total Revenue and Other Financing Sources | <u>\$ 3,441,773</u> | <u>\$ 3,466,421</u> | <u>\$ 3,371,799</u> |

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SPECIAL EDUCATION FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2007
With Comparative Totals for the Year Ended June 30, 2006

| | 2007 Amended Budget | 2007 Actual | 2006 Actual |
|-------------------------------|---------------------------|------------------|------------------|
| <u>Instruction</u> | | | |
| Added Needs: | | | |
| Trainable Mentally Impaired | | | |
| Salaries | \$ 459,645 | \$ 445,738 | \$ 478,442 |
| Employee Benefits | 301,539 | 286,145 | 298,766 |
| Purchased Services | 40,658 | 36,992 | 44,068 |
| Supplies, Materials and Other | 17,200 | 15,566 | 24,490 |
| | <u>819,042</u> | <u>784,441</u> | <u>845,766</u> |
| Severely Mentally Impaired | | | |
| Salaries | 194,550 | 193,161 | 186,032 |
| Employee Benefits | 109,890 | 108,194 | 103,012 |
| Purchased Services | 48,750 | 39,908 | 4,119 |
| Supplies, Materials and Other | 3,500 | 2,435 | 5,299 |
| | <u>356,690</u> | <u>343,698</u> | <u>298,462</u> |
| Preschool Health | | | |
| Salaries | 41,250 | 40,182 | 39,160 |
| Employee Benefits | 22,747 | 21,565 | 20,459 |
| Supplies, Materials and Other | 3,500 | 3,224 | 3,869 |
| | <u>67,497</u> | <u>64,971</u> | <u>63,488</u> |
| Hearing Impaired | | | |
| Salaries | 126,089 | 124,306 | 120,380 |
| Employee Benefits | 82,152 | 79,388 | 77,621 |
| Purchased Services | 1,065 | 503 | 471 |
| Supplies, Materials and Other | 1,700 | 1,366 | 1,001 |
| | <u>211,006</u> | <u>205,563</u> | <u>199,473</u> |
| Visually Impaired | | | |
| Salaries | 56,900 | 52,580 | 10,869 |
| Employee Benefits | 30,743 | 28,091 | 9,604 |
| Purchased Services | 8,700 | 8,600 | 8,440 |
| Supplies, Materials and Other | 1,000 | 727 | 2,575 |
| | <u>97,343</u> | <u>89,998</u> | <u>31,488</u> |
| Resource Room | | | |
| Salaries | 45,000 | 44,918 | 41,363 |
| Employee Benefits | 18,237 | 16,890 | 27,441 |
| Purchased Services | 150 | 53 | 199 |
| Supplies, Materials and Other | 11,000 | 9,657 | 10,095 |
| | <u>74,387</u> | <u>71,518</u> | <u>79,098</u> |
| Total Instruction | <u>1,625,965</u> | <u>1,560,189</u> | <u>1,517,775</u> |

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SPECIAL EDUCATION FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2007
With Comparative Totals for the Year Ended June 30, 2006

| | 2007 Amended Budget | 2007 Actual | 2006 Actual |
|-------------------------------|---------------------------|----------------|----------------|
| <u>Support Services</u> | | | |
| Pupil Services: | | | |
| Occupational Therapy | | | |
| Salaries | \$ 75,595 | \$ 70,584 | \$ 66,442 |
| Employee Benefits | 55,254 | 47,301 | 47,375 |
| Purchased Services | 6,150 | 5,456 | 6,042 |
| Supplies, Materials and Other | 4,075 | 3,757 | 6,014 |
| | <u>141,074</u> | <u>127,098</u> | <u>125,873</u> |
| Instructional Staff: | | | |
| Director of Special Education | | | |
| Salaries | 93,055 | 92,991 | 80,958 |
| Employee Benefits | 53,420 | 45,310 | 36,546 |
| Purchased Services | 217,925 | 211,940 | 181,383 |
| Supplies, Materials and Other | 1,450 | 1,090 | 337 |
| | <u>365,850</u> | <u>351,331</u> | <u>299,224</u> |
| School Administration: | | | |
| Central Office | | | |
| Purchased Services | 12,912 | 12,912 | 12,816 |
| Supplies, Materials and Other | 39,967 | 38,456 | 48,412 |
| | <u>52,879</u> | <u>51,368</u> | <u>61,228</u> |
| Business: | | | |
| Fiscal Services | | | |
| Salaries | 66,030 | 66,027 | 60,357 |
| Employee Benefits | 34,471 | 34,463 | 30,447 |
| Purchased Services | 2,800 | 2,665 | 4,032 |
| Supplies, Materials and Other | 658 | 609 | 1,096 |
| | <u>103,959</u> | <u>103,764</u> | <u>95,932</u> |
| Staff Secretary | | | |
| Salaries | 38,268 | 37,939 | 43,236 |
| Employee Benefits | 28,791 | 28,170 | 32,388 |
| Purchased Services | 1,025 | 260 | 0 |
| Supplies, Materials and Other | 100 | 39 | 13 |
| | <u>68,184</u> | <u>66,408</u> | <u>75,637</u> |
| Total Business | <u>172,143</u> | <u>170,172</u> | <u>171,569</u> |
| Operations and Maintenance: | | | |
| Purchased Services | 46,345 | 43,445 | 44,899 |
| Supplies, Materials and Other | 3,000 | 2,138 | 3,720 |
| | <u>49,345</u> | <u>45,583</u> | <u>48,619</u> |

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

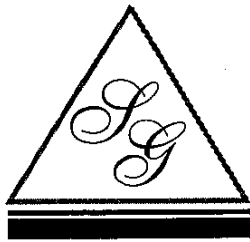
SPECIAL EDUCATION FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2007
With Comparative Totals for the Year Ended June 30, 2006

| | 2007 Amended Budget | 2007 Actual | 2006 Actual |
|--|---------------------------|------------------|------------------|
| <u>Support Services (Continued)</u> | | | |
| Transportation: | | | |
| Salaries | \$ 327,120 | \$ 318,469 | \$ 293,940 |
| Employee Benefits | 175,833 | 172,413 | 137,820 |
| Purchased Services | 82,731 | 79,222 | 51,123 |
| Supplies, Materials and Other | 72,500 | 70,719 | 63,474 |
| | <u>658,184</u> | <u>640,823</u> | <u>546,357</u> |
| Central Services: | | | |
| ISD Planner/Monitor | | | |
| Employee Benefits | 1,000 | 372 | 0 |
| Purchased Services | 41,200 | 44,809 | 38,961 |
| Supplies, Materials and Other | 2,500 | 2,476 | 4,002 |
| | <u>44,700</u> | <u>47,657</u> | <u>42,963</u> |
| Technology | | | |
| Salaries | 4,612 | 4,611 | 0 |
| Employee Benefits | 1,259 | 1,210 | 0 |
| Purchased Services | 5,000 | 4,984 | 11,641 |
| Supplies, Materials and Other | 1,300 | 539 | 2,481 |
| | <u>12,171</u> | <u>11,344</u> | <u>14,122</u> |
| Total Central Services | <u>56,871</u> | <u>59,001</u> | <u>57,085</u> |
| Total Support Services | <u>1,496,346</u> | <u>1,445,376</u> | <u>1,309,955</u> |
| <u>Community Services</u> | | | |
| Early Intervention | | | |
| Salaries | 2,500 | 2,356 | 1,708 |
| Employee Benefits | 1,829 | 1,303 | 1,293 |
| Purchased Services | 68,600 | 67,397 | 65,536 |
| Supplies, Materials and Other | 2,800 | 2,101 | 1,803 |
| | <u>75,729</u> | <u>73,157</u> | <u>70,340</u> |
| <u>Outgoing Transfers to Other Districts</u> | | | |
| Medicaid Transfers: | | | |
| Hale Area Schools | 30,575 | 30,355 | 52,719 |
| Oscoda Area Schools | 55,400 | 55,002 | 97,283 |
| Tawas Area Schools | 40,200 | 39,919 | 31,945 |
| Whittemore-Prescott Schools | 85,375 | 84,769 | 33,751 |
| Sunrise Education Center | 1,450 | 1,432 | 0 |
| Total Outgoing Transfers to Other Districts | <u>213,000</u> | <u>211,477</u> | <u>215,698</u> |

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SPECIAL EDUCATION FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2007
With Comparative Totals for the Year Ended June 30, 2006

| | 2007 Amended Budget | 2007 Actual | 2006 Actual |
|-------------------------------------|---------------------------|---------------------|---------------------|
| <u>Capital Outlay</u> | | | |
| Instruction | \$ 510 | \$ 0 | \$ 0 |
| Support Services | <u>69,511</u> | <u>69,511</u> | <u>66,308</u> |
| Total Capital Outlay | <u>70,021</u> | <u>69,511</u> | <u>66,308</u> |
| <u>Debt Service</u> | | | |
| Principal Retirement | 62,640 | 62,613 | 129,386 |
| Interest and Fees on Long-Term Debt | <u>34,414</u> | <u>33,893</u> | <u>37,027</u> |
| Total Debt Service | <u>97,054</u> | <u>96,506</u> | <u>166,413</u> |
| Total Expenditures and Transfers | <u>\$ 3,578,115</u> | <u>\$ 3,456,216</u> | <u>\$ 3,346,489</u> |



Stephenson Gracik & Co., P.C.
Certified Public Accountants & Consultants

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Gerald D. Gracik Jr., CPA
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Donald W. Brannan, CPA
Kyle E. Troyer, CPA

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October 24, 2007

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Education
Iosco Regional Educational Service Agency
Iosco County, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Iosco Regional Educational Service Agency, Iosco County, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the Iosco Regional Educational Service Agency's basic financial statements and have issued our report thereon dated October 24, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Iosco Regional Educational Service Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Iosco Regional Educational Service Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Iosco Regional Educational Service Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified one deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Iosco Regional Educational Service Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Iosco Regional Educational Service Agency's financial statements that is more than inconsequential will not be prevented or detected by the Iosco Regional Educational Service Agency's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

Financial Statement Preparation

Iosco Regional Education Service Agency prepares various financial information throughout the year to assess operations and the financial condition of the Agency. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the Agency relies on our firm to assist in preparing the annual financial report in accordance with Generally Accepted Accounting Principles.

Board of Education
Iosco Regional Educational Service Agency
October 24, 2007

Iosco Regional Education Service Agency has individuals on staff to review that the financial report is accurate and the financial information reflects the recording of the proposed entries, however, not to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Agency is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the Agency would not be in a position to detect the errors or omissions.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Iosco Regional Educational Service Agency's internal control.

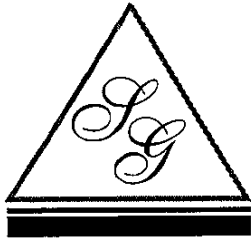
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Iosco Regional Educational Service Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, the Michigan Department of Education, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grunh & Co., P.C.



Stephenson Gracik & Co., P.C.
Certified Public Accountants & Consultants

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October 24, 2007

To the Board of Education
Iosco Regional Educational Service Agency
Iosco County, Michigan

Dear Board Members:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Iosco Regional Educational Service Agency for the year ended June 30, 2007, and have issued our report thereon dated October 24, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated April 19, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Iosco Regional Educational Service Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Iosco Regional Educational Service Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Iosco Regional Educational Service Agency's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Iosco Regional Educational Service Agency's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Iosco Regional Educational Service Agency's compliance with those requirements.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Iosco Regional Educational Service Agency are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Iosco Regional Educational Service Agency during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

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M.A.C.P.A.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Iosco Regional Educational Service Agency's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Iosco Regional Educational Service Agency, either individually or in the aggregate, indicate matters that could have a significant effect on the Iosco Regional Educational Service Agency's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Iosco Regional Educational Service Agency's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Additional Information

As a result of our study and evaluation of the internal controls and compliance as described in the third and fourth paragraphs, certain matters came to our attention upon which we would like to comment and offer the following recommendation.

Financial Statement Preparation

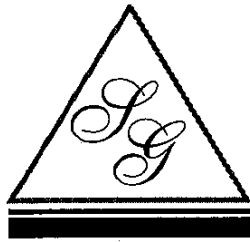
Iosco Regional Education Service Agency prepares various financial information throughout the year to assess operations and the financial condition of the Agency. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the Agency relies on our firm to assist in preparing the annual financial report in accordance with Generally Accepted Accounting Principles.

Iosco Regional Education Service Agency has individuals on staff to review that the financial report is accurate and the financial information reflects the recording of the proposed entries, however, not to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Agency is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the Agency would not be in a position to detect the errors or omissions.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of Iosco Regional Educational Service Agency.

This information is intended solely for the use of management, the Board of Education, others within the entity, the Michigan Department of Education, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Graub & Co., P.C.



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IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
IOSCO COUNTY, MICHIGAN

SINGLE AUDIT REPORTS
YEAR ENDED JUNE 30, 2007

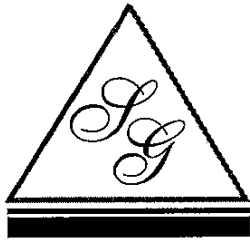
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Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

October 24, 2007

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Education
Iosco Regional Educational Service Agency
Iosco County, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Iosco Regional Educational Service Agency as of and for the year ended June 30, 2007, which collectively comprise the Iosco Regional Educational Service Agency's basic financial statements and have issued our report thereon dated October 24, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Iosco Regional Educational Service Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Iosco Regional Educational Service Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Iosco Regional Educational Service Agency's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified one deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Iosco Regional Educational Service Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Iosco Regional Educational Service Agency's financial statements that is more than inconsequential will not be prevented or detected by the Iosco Regional Educational Service Agency's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 07-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Iosco Regional Educational Service Agency's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described in the accompanying schedule of findings and questioned costs as item 07-1 to be a material weakness.

Board of Education
Iosco Regional Educational Service Agency
October 24, 2007
Page Two

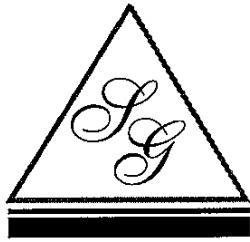
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Iosco Regional Educational Service Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of Iosco Regional Educational Service Agency in a separate letter dated October 24, 2007.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, the Michigan Department of Education, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grunh & Co., P.C.



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

October 24, 2007

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Iosco Regional Educational Service Agency
Iosco County, Michigan

Compliance

We have audited the compliance of the Iosco Regional Educational Service Agency with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The Iosco Regional Educational Service Agency's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Iosco Regional Educational Service Agency's management. Our responsibility is to express an opinion on the Iosco Regional Educational Service Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Iosco Regional Educational Service Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Iosco Regional Educational Service Agency's compliance with those requirements.

In our opinion, the Iosco Regional Educational Service Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the Iosco Regional Educational Service Agency is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Iosco Regional Educational Service Agency's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Iosco Regional Educational Service Agency as of and for the year ended June 30, 2007, and have issued our report thereon dated October 24, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Iosco Regional Educational Service Agency's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, the Michigan Department of Education, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grainth & Co., P.C.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2007

There were no findings or questioned costs for the year ending June 30, 2006.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2007

Summary of Auditors' Results

- (1) The auditors' report expresses unqualified opinions on the financial statements of Iosco Regional Educational Service Agency.
- (2) One significant deficiency in internal control relating to the audit of the financial statements is reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. The significant deficiency is considered to be a material weakness.
- (3) No instances of noncompliance material to the financial statements of Iosco Regional Educational Service Agency, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- (4) No significant deficiencies relating to the audit of internal control over major federal award programs were reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
- (5) The auditors' report on compliance for the major federal award programs for the Iosco Regional Educational Service Agency expresses an unqualified opinion.
- (6) No audit findings relative to the major federal award programs for Iosco Regional Educational Service Agency are reported in this schedule.
- (7) The programs tested as major programs were: Special Education Cluster, CFDA #84.027 and 84.173.
- (8) The threshold used for distinguishing between Type A and B programs was \$300,000.
- (9) Iosco Regional Educational Service Agency was determined to be a low-risk auditee.

Findings - Financial Statements Audit

07-1 Financial Statement Preparation

Iosco Regional Educational Service Agency personnel prepare various financial information throughout the year to assess operations and the financial condition of the Agency. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the Agency relies on our firm to assist in preparing the annual financial report in accordance with Generally Accepted Accounting Principles.

Iosco Regional Educational Service Agency has individuals on staff to review the financial report to ensure it is accurate, and the financial information reflects the recording of the proposed entries. However, the individuals do not review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Agency is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the Agency would not be in a position to detect the errors or omissions.

Criteria: Accounting principles require personnel of Iosco Regional Educational Service Agency have the knowledge to review and determine the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2007

Findings - Financial Statements Audit (Continued)

07-1 Financial Statement Preparation (Continued)

Condition: Iosco Regional Educational Service Agency personnel prepare various financial information throughout the year to assess operations and the financial condition of the Agency. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the Agency relies on our firm to assist in preparing the annual financial report in accordance with Generally Accepted Accounting Principles.

Questioned Costs: None.

Context: Iosco Regional Educational Service Agency have individuals on staff to review the financial report to ensure it is accurate, and the financial information reflects the recording of the proposed entries. However, the individuals do not review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles.

Effect: As a result, the Agency is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the Agency would not be in a position to detect the errors or omissions.

Findings and Questioned Costs - Major Federal Award Programs Audit

There were no findings or questioned costs related to the major federal award programs audit for the year ending June 30, 2007.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2007

| Federal Grantor or Pass Through Grantor Program Title/Grantor's Number | Federal CFDA Number | Approved Grant Award Amount | (Memo Only) Prior Year Expenditures | Accrued (Deferred) Revenue July 1, 2006 | Current Year Expenditures | Current Year Receipts (Cash Basis) | Accrued (Deferred) Revenue June 30, 2007 |
|---|---------------------------|-----------------------------------|---|--|------------------------------|--|---|
| <u>U.S. Department of Agriculture</u> | | | | | | | |
| Child Nutrition Cluster: | | | | | | | |
| Passed through Michigan Department of Education: | | | | | | | |
| National School Lunch Program: | 10.555 | | | | | | |
| Sec. 4 - All Lunches: | | | | | | | |
| 061950 | | \$ 65 | \$ 31 | \$ 31 | \$ 34 | \$ 65 | \$ 0 |
| 071950 | | 263 | 0 | 0 | 263 | 263 | 0 |
| Sec. 11 - Free and Reduced: | | | | | | | |
| 061960 | | 500 | 250 | 250 | 250 | 500 | 0 |
| 071960 | | 2,080 | 0 | 0 | 2,080 | 2,080 | 0 |
| Total U.S. Department of Agriculture | | <u>2,908</u> | <u>281</u> | <u>281</u> | <u>2,627</u> | <u>2,908</u> | <u>0</u> |
| <u>U.S. Department of Education</u> | | | | | | | |
| Small Rural School Achievement Program S358A043739 | 84.358A | <u>18,610</u> | <u>0</u> | <u>0</u> | <u>18,610</u> | <u>18,610</u> | <u>0</u> |
| Special Education Cluster: | | | | | | | |
| Handicapped and Preschool Programs: | 84.027 | | | | | | |
| Passed through Michigan Department of Education: | | | | | | | |
| Service Provider Self Review 070440 0607 | | 4,000 | 0 | 0 | 4,000 | 4,000 | 0 |
| Special Education Flow Through 070450 0607 | | 1,160,342 | 0 | 0 | 1,160,342 | 1,160,342 | 0 |
| Special Education EOSD Competitive 070480 EOSD | | 45,000 | 0 | 0 | 45,000 | 39,787 | 5,213 |
| Special Education - State Initiated 070490 TS | | 60,000 | 0 | 0 | 60,000 | 60,000 | 0 |
| | | <u>1,269,342</u> | <u>0</u> | <u>0</u> | <u>1,269,342</u> | <u>1,264,129</u> | <u>5,213</u> |
| Passed through Michigan Department of Education: | | | | | | | |
| Special Education - Preschool Grants: | 84.173 | | | | | | |
| Preschool Incentive 070460 0607 | | <u>44,027</u> | <u>0</u> | <u>0</u> | <u>44,027</u> | <u>44,027</u> | <u>0</u> |
| Total Special Education Cluster | | <u>1,313,369</u> | <u>0</u> | <u>0</u> | <u>1,313,369</u> | <u>1,308,156</u> | <u>5,213</u> |
| Passed through Clare Gladwin Educational Service District: | | | | | | | |
| Secondary CTE Perkins (Title I) 6012-06 | 84.048 | 96,407 | 96,407 | 32,505 | 0 | 32,505 | 0 |
| Secondary CTE Perkins (Title I) 6012-06 | | <u>87,979</u> | <u>0</u> | <u>0</u> | <u>87,979</u> | <u>43,317</u> | <u>44,662</u> |
| Total Perkins Grant | | <u>184,386</u> | <u>96,407</u> | <u>32,505</u> | <u>87,979</u> | <u>75,822</u> | <u>44,662</u> |

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2007

| Federal Grantor or Pass Through Grantor Program Title/Grantor's Number | Federal CFDA Number | Approved Grant Award Amount | (Memo Only) Prior Year Expenditures | Accrued (Deferred) Revenue July 1, 2006 | Current Year Expenditures | Current Year Receipts (Cash Basis) | Accrued (Deferred) Revenue June 30, 2007 |
|--|---------------------------|-----------------------------------|---|--|------------------------------|--|---|
| <u>U.S. Department of Education (Continued)</u> | | | | | | | |
| Passed through Michigan Department of Education: | | | | | | | |
| Special Education Formula Grant for Infants and Toddlers: | 84.181A | | | | | | |
| Early On Michigan 051340 190 | | \$ 82,875 | \$ 78,964 | \$ (3,911) | \$ 0 | \$ 0 | \$ (3,911) (1) |
| Early On Michigan 061340 190 | | 75,487 | 74,183 | (1,304) | 1,304 | 0 | 0 |
| Early On Michigan 071340 190 | | <u>72,728</u> | <u>0</u> | <u>0</u> | <u>72,728</u> | <u>5,175</u> | <u>67,553</u> |
| | | <u>231,090</u> | <u>153,147</u> | <u>(5,215)</u> | <u>74,032</u> | <u>5,175</u> | <u>63,642</u> |
| Passed through Crawford Oscoda Ogemaw Roscommon Intermediate School District: | | | | | | | |
| Tech Prep Education 073540 7014-6 | 84.243 | <u>16,504</u> | <u>0</u> | <u>0</u> | <u>16,504</u> | <u>12,604</u> | <u>3,900</u> |
| Passed through Michigan Department of Education: | | | | | | | |
| Title V LEA Allocation 070250 0607 | 84.298 | <u>454</u> | <u>0</u> | <u>0</u> | <u>454</u> | <u>454</u> | <u>0</u> |
| Passed through Michigan Department of Education: | | | | | | | |
| Improving Teacher Quality: | 84.367 | | | | | | |
| Title IIA, Teacher Training 070520 0607 | | <u>199</u> | <u>0</u> | <u>0</u> | <u>199</u> | <u>199</u> | <u>0</u> |
| Total U.S. Department of Education | | <u>1,764,612</u> | <u>249,554</u> | <u>27,290</u> | <u>1,511,147</u> | <u>1,421,020</u> | <u>117,417</u> |
| <u>U.S. Department of Health and Human Services</u> | | | | | | | |
| Passed through Family Independence Agency: | | | | | | | |
| Title IVB, Subpart 2 - Family Preservation and Support Services: | 93.556 | | | | | | |
| SFSC-03-35003-4 | | <u>19,485</u> | <u>16,200</u> | <u>1,800</u> | <u>3,285</u> | <u>5,085</u> | <u>0</u> |
| Passed through Michigan Department of Community Health Med Bill: | | | | | | | |
| Title XIX Medical Assistance Program: | 93.778 | | | | | | |
| Transportation Claims | | 1,717 | 1,717 | 82 | 0 | 82 | 0 |
| Transportation Claims | | <u>1,581</u> | <u>0</u> | <u>0</u> | <u>1,581</u> | <u>1,537</u> | <u>44</u> |
| | | <u>3,298</u> | <u>1,717</u> | <u>82</u> | <u>1,581</u> | <u>1,619</u> | <u>44</u> |

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2007

| Federal CFDA Number | Approved Grant Award Amount | (Memo Only) Prior Year Expenditures | Accrued (Deferred) Revenue July 1, 2006 | Current Year Expenditures | Current Year Receipts (Cash Basis) | Accrued (Deferred) Revenue June 30, 2007 |
|--|-----------------------------------|---|--|------------------------------|--|---|
| <u>U.S. Department of Health and Human Services (Continued):</u> | | | | | | |
| Passed through Michigan Department of Community Health: | | | | | | |
| Title XIX Medical Assistance Program: | | | | | | |
| 93.778 | | | | | | |
| Medicaid Outreach Claims | \$ 15,901 | \$ 0 | \$ 0 | \$ 15,901 | \$ 15,901 | \$ 0 |
| Total Title XIX Medical Assistance Program | 19,199 | 1,717 | 82 | 17,482 | 17,520 | 44 |
| Total U.S. Department of Health and Human Services | 38,684 | 17,917 | 1,882 | 20,767 | 22,605 | 44 |
| Total Federal Awards | \$ 1,806,204 | \$ 267,752 | \$ 29,453 | \$ 1,534,541 | \$ 1,446,533 | \$ 117,461 |

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2007

Notes:

1. Unspent Early On Michigan funds of \$3,911 will be returned to the Michigan Department of Education in the fiscal year ending June 30, 2008.
2. The Schedule of Expenditures of Federal Awards is a summary of the cash activity of the Organization's federal awards and does not present transactions that would be included in financial statements of the Organization presented on the accrual basis of accounting, as contemplated by accounting principles generally accepted in the United States of America.
3. Expenditures on this schedule reconcile with amounts reported in the financial statements and the financial reports submitted to the Michigan Department of Education.
4. The amounts reported on the R7120, Grants Section Auditors' Report, reconcile with this schedule.
5. Reconciliation to financial statements:

| | |
|--|---------------------|
| General Fund | \$ 22,548 |
| Vocational Education | 104,483 |
| Special Education | <u>1,407,510</u> |
| Federal revenue per financial statements and schedule of expenditures of federal awards | <u>\$ 1,534,541</u> |

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 PROVIDED TO SUBRECIPIENTS
For the Year Ended June 30, 2007

| <u>Federal Program Title/Subrecipient</u> | <u>Project Number</u> | <u>Federal CFDA Number</u> | <u>Approved Grant Amount</u> | <u>Due to Subrecipient July 1, 2006</u> | <u>Current Year Transfer to Subrecipient</u> | <u>Current Year Subrecipient Federal Expenditures</u> | <u>Due to Subrecipient June 30, 2007</u> |
|---|---------------------------|------------------------------------|--------------------------------------|---|--|---|--|
| Special Education Formula Grant for Infants and Toddlers: | | | | | | | |
| Early On Michigan | | 84.181A | | | | | |
| AuSable Valley Community Mental Health Services Board, Inc. | 061340 190 | | \$ 65,759 | \$ 0 | \$ 500 | \$ 500 | \$ 0 |
| AuSable Valley Community Mental Health Services Board, Inc. | 071340 190 | | <u>65,438</u> | <u>0</u> | <u>65,438</u> | <u>65,438</u> | <u>0</u> |
| | | | <u>131,197</u> | <u>0</u> | <u>65,938</u> | <u>65,938</u> | <u>0</u> |
| Title XIX Medical Assistance Program: | | | | | | | |
| Medicaid Transportation and Outreach Claims: | | 93.778 | N/A | | | | |
| Hale Area Schools | | | | 0 | 0 | 366 | 366 |
| Oscoda Area Schools | | | | 45 | 45 | 141 | 141 |
| Tawas Area Schools | | | | 7 | 270 | 298 | 35 |
| Whittemore-Prescott Area Schools | | | | <u>0</u> | <u>13</u> | <u>133</u> | <u>120</u> |
| | | | | <u>52</u> | <u>328</u> | <u>938</u> | <u>662</u> |
| Total Federal Awards Provided to Subrecipients | | | <u>\$ 131,197</u> | <u>\$ 52</u> | <u>\$ 66,266</u> | <u>\$ 66,876</u> | <u>\$ 662</u> |